Open Board Meeting Sept. 16, 2010

# NCUA Chairman Debbie Matz Statement

## Share Insurance Fund Premium

**I assure all stakeholders that the decision to charge this premium is not taken lightly. We understand that 2010 has been a challenging year. Many credit unions are struggling to contain costs.**

**But I can say unequivocally: This premium is absolutely necessary to replenish the Share Insurance Fund to a level that will protect America's 90 million federally insured credit union members. Members who have kept their savings within the federal coverage limit have never lost a penny – and we intend to keep it that way.**

**This premium will also protect federally insured credit unions.**

- **During these turbulent economic times, a strong and well-capitalized insurance fund will prevent reputation risk by reassuring consumers that their money is safe in credit unions.**

- **And this premium will reduce recapitalization risk for credit unions by restoring a safe cushion above the 1% statutory minimum equity ratio.**

**Some stakeholders called for NCUA to maintain the equity ratio below the low end of the normal operating floor of 1.2%. We gave this strategy serious consideration.**

**However, knowing the magnitude of credit union losses the fund has absorbed this year, plus additional losses which are likely to occur in the coming year, it is not practical to manage the fund without a reasonable margin of safety.**

**Keep in mind that going into this year, the goal was to maintain the equity ratio near high end of the normal operating level: 1.3%. Yet as of August 31, as credit union losses exceeded projections, the ratio dropped all the way down to 1.14% according to GAAP. This requires NCUA to publish a restoration plan in the *Federal Register*.**

**If we set the goal any lower, we would risk the possibility of falling below 1% -- which**

**by law would require credit unions to recapitalize immediately.**

**To put it simply: The stakes are too high. We cannot afford to aim low and miss the target.**

**In these volatile times, narrowing the fund's safety margin would be irresponsible.**

**The responsible public policy is to manage the fund cautiously. We are restoring a reasonable margin of safety today, rather than risking a loss of confidence tomorrow.**

**Based on optimistic projections, today's premium will keep the equity ratio above 1.2% through December of 2011.**

**But whether or not the fund meets those projections is really up to credit unions.**

**The most important factor in both the premium level and the equity ratio is the credit union industry's financial performance. If credit union losses are lower, credit union premiums will be lower. That also means if credit union losses are lower, the equity ratio will be higher.**

**Throughout this year, NCUA has strived to make this process more transparent:**

- **We invited Melinda to join Mary Ann at several public Board briefings to go over, in great detail, all the factors that contribute to the Share Insurance Fund premium.**

- **We posted those factors on the NCUA website and further described them in numerous public appearances and webinars.**

**Later today we will send a Letter to all Federally Insured Credit Unions to demonstrate how each individual credit union can calculate their exact premium amount and measure the effect on their balance sheet.**

**For most credit unions, the amount should be lower than what they budgeted:**

- **At 12.4 basis points, the Share Insurance Fund premium falls on the low end of the range of 10-to-25 basis points which the NCUA Board projected for 2010.**

- And when the Share Insurance Fund premium is combined with this year's Corporate Stabilization Fund assessment, the total of 26 basis points falls within the lower half of the range of 15-to-40 basis points that the NCUA Board projected for the 2 payments combined.

As you can imagine, it is very difficult to predict over a year in advance what the ultimate losses will be in both consumer credit unions and corporate credit unions.

But by making this process fully transparent from the beginning, we allowed credit unions to budget an appropriate amount for 2010.

NCUA will continue this open process in the future. At our public Board meeting in

**November of 2010, we plan to estimate a combined range for the Share Insurance Fund premium and Corporate Stabilization Fund assessment in 2011.**

**NCUA will also continue to do everything in our power to minimize credit union losses.**

- **That's why federal examiners are working so diligently with credit unions to mitigate their risks.**
- **And that's why NCUA is stepping up enforcement actions – to control the costs of troubled credit unions before those charges must be passed on to all credit unions.**

**With safe management and sound supervision, credit unions will emerge from this economic maelstrom strong and resilient.**